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SUBJECT: JORDAN IRAQ CONFERENCE SENDS NEEDED MESSAGE

REF: AMMAN 3190

Sensitive but unclassified; please protect accordingly.

¶11. (sbu) Summary: The June 5 "Doing Business With Iraq" conference organized by four leading Jordanian business associations left local businessmen better informed and better prepared to take advantage of opportunities. Despite a vocal minority of "old economy" businessmen who grilled U.S. speakers about compensation claims and complained that "Jordan's share" of reconstruction contracts wasn't doled out at the conference, a solid majority of business representatives, including delegations from a dozen countries from East Asia to Eastern Europe, used the conference to gain information about new business realities in Iraq and to network with contractors and attending Iraqi businessmen. The conference highlighted the widening gap between a fading breed of old economy traders and a new breed of professionals in Jordan and the region who are positioning themselves to capitalize on free-market opportunities in Iraq. End summary.

CONFERENCE DRAWS GLOBAL INTEREST

¶12. (u) Attendance at the day-long June 5 "Doing Business With Iraq" conference surpassed the most optimistic predictions of the conference's organizers. Over 1,200 people attended, including business delegations from Turkey, Japan, India, Bulgaria, and throughout the Gulf, among others. Also in attendance were key Iraqi business figures in Jordan, and self-styled representatives of Iraqi chambers of industry and commerce. The conference featured speakers from major humanitarian assistance organizations, primary contractors for the reconstruction process (including Bechtel, ABT, and Creative Associates), and representatives from the Coalition Provisional Authority (CPA). Trade Minister Bashir opened the conference, and the Ambassador spoke at the conference lunch event.

KEY MESSAGES

¶13. (u) Following a background briefing by McKinsey and Co. highlighting Iraq's projected reconstruction needs (roughly \$500 billion to regain 1980 levels; a similar figure to modernize), conference participants heard three main messages repeated by virtually all the speakers throughout the day's events. First, speakers emphasized that reconstruction contracts represented a tiny fraction of Iraq's long-term rebuilding and commercial needs, and noted further that competition for sub-contracts under existing awards was fierce. Bechtel repeated a theme from presentations elsewhere that strong interest from globally competitive companies was already well in evidence - over 8,000 applications had been submitted through the Bechtel website for reconstruction subcontracting. Bechtel said companies should be realistic about their expectations of winning subcontracts, highlighting the competitive nature of the bidding process.

¶14. (u) Second, speakers repeated the refrain "go to Baghdad," noting that the bulk of economic activity in Iraq would be done on the ground, in the private sector, by companies with initiative that were willing to take risks. They acknowledged that there still existed in Iraq significant risk factors, both on the security side and on the legal/investment protection side, but noted that many companies are already trading with Iraqi importers, some are setting up offices, and others are actively seeking Iraqi investment partners. This message contrasted sharply with what local businessmen said they had been hearing on the street and unofficially from returnees from Baghdad, who had (prior to June 5) discouraged travel into Iraq on security grounds.

¶15. (u) Third, speakers from the CPA acknowledged that the disposition of outstanding contracts with the Saddam Hussein regime were a thorny issue. They stressed, though, that it was too early to be able to answer specific questions about specific contracts, especially since the UNSC had not yet made a final determination regarding how uncompleted contracts would be treated, or indeed whether or not pending contracts could be executed. Regarding outstanding contracts

under other mechanisms (i.e., the bilateral Jordan-Iraq protocol and commercial contracts with formerly state-owned enterprises), Trade Minister Bashir told the conference settlement of claims would have to await the standing up of an Iraqi counterpart ministry with which to discuss the issue.

VOCAL MINORITY VENTS OVER CONTRACTS

¶16. (u) An angry knot of several dozen Jordanian businessmen grilled speakers from CPA, Bechtel, and McKinsey about outstanding contracts. One businessman used a Q&A session following the initial presentation to accuse the U.S. of "wanting to invest in war, but not in peace," an assertion that met with some applause. Primarily, this group of local businessmen used the Q&A session to ask a dozen varieties of the same question: "how will I be compensated for my specific outstanding contract?" Speakers repeated the message above regarding the complexity of the situation, an unpopular response among those who had been trading with the Saddam regime in the months leading up to war.

¶17. (sbu) Following the conference, a number of like-minded local businessmen complained that the meeting had been mis-advertised. Rather than the subcontracts for reconstruction they expected to be handed to them on a silver platter at the conference, these businessmen were confronted with the reality that subcontracts would be competed transparently and on the basis of quality and initiative from competing firms. Some 200 attendees left the conference early, bringing local media with them to vent further about how little they got out of the conference.

SILENT MAJORITY NETWORKS, LEARNS, EARNS

¶18. (u) Those who stayed, however, had significant and often rewarding opportunities to network with third-country investors looking for partners, with Iraqi businessmen looking for partners/suppliers, and with contractors. Many local participants commented at the end of the conference that they had done more business that day than in the previous month. Contractors and CPA officials also held break-out sessions with small groups of interested businesses, and Bechtel and CPA officials held an additional five hours of one-on-one sessions with individual businessmen throughout the conference day. Key Iraqi business leaders in Amman took over one of the break-out rooms early in the day and could be seen "holding court" with interested parties both from Jordan and from third country delegations.

¶19. (sbu) Representatives from primary contractors were impressed at the professionalism and capabilities of the Jordanian companies with which they met. Both the Bechtel and the ABT reps noted that they had developed solid leads for suppliers as a result of the conference.

KEY JORDANIANS RECEIVE PERSONAL MESSAGE

¶10. (sbu) Following the conference, the Ambassador held an informal round table for key Jordanian business leaders with CPA officials and primary contractors. The business leaders appreciated CPA's views on the on-the-ground realities in Baghdad, and came away reassured that the USG is focused on what the key short- and long-term issues are for Iraq, and that the CPA had a plan to address those issues systematically. Business leaders stressed that the single most critical piece of infrastructure holding back commerce in Iraq was the re-establishment of financial institutions and a banking sector. Following closely behind as a key need was the establishment of civil courts to provide a measure of protection for investors.

¶11. (sbu) Some business leaders noted that ultimately, those who were sincere about taking advantage of opportunities would just have to jump in with both feet, accepting the inherent security and financial risk in exchange for potentially significant rewards. At the same time, some business leaders observed that financial risks for Jordanian companies were, on the whole, relatively higher than for businesses in, for example, Kuwait - mostly because of greater availability of venture/risk capital in the Gulf. Business leaders said they would welcome the establishment of some sort of umbrella arrangement by the CPA to provide some measure of investor protection.

¶12. (sbu) Ultimately, many business leaders agreed that the optimal business plan for now would be to partner with a knowledgeable Iraqi counterpart, both to spread the risk and to take advantage of the local market expertise of Iraqi partners. An Embassy contact at the palace told us separately that his family was already renewing dormant relationships with Iraqi importers and investment partners to restart businesses that had been thriving prior to the onset of UNSC sanctions.

ASSESSING THE CONCERNS

¶13. (sbu) This conference highlighted the thirst for any information about Iraq, both in Jordan and in the surrounding region. It also showed the deepening frustration many companies are feeling over the inability to get an answer regarding compensation claims for outstanding contracts - both under the OFF program and through other trade arrangements. We believe a decision on handling of outstanding OFF contracts, and rapid placement of COTECNA inspectors at border points to stamp documents would go a long way toward dispelling much of the frustration and anger in local business communities over contracts they feel they entered into in good faith with the UN.

¶14. (sbu) On a similar note, the conference also highlighted changing realities on the local business scene. It is becoming increasingly apparent, even to old economy stalwarts, that the "old ways" of doing business through guaranteed carve-outs in protected markets for non-competitive goods and services are rapidly falling by the wayside. One telling example: Kellogg Brown and Root (KBR) recently tendered the construction of a bypass road to facilitate the rebuilding of a bridge in an Iraqi town. A Jordanian consultant assessed the project at \$300,000. Three Jordanian bidders then colluded on their bids, putting in offers starting at \$1.2 million for the project. KBR was forced to reject all three bids, giving the project instead to an Iraqi firm for around \$300,000. This sort of self-destructive behavior is typical of old economy Jordanian companies, and it is the sort of behavior that will ultimately push them out of the reconstruction effort unless they change their ways. The meteor of open competition has struck the Jordanian business world, and those dinosaurs that cannot adapt will ultimately fade away.

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